MAJOR GIFTS AND PLANNED GIFTS

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The American College of Financial Services
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WHERE WE ARE

3. • Fundraising responsibilities of nonprofit boards
4. • Major gifts and planned gifts
5. • From stewardship to accountability

PURPOSE AND SIGNIFICANCE

Traditional institutional focused approach
• In this assignment (as in the prior assignment and the next two) we are working within the vocabulary of fundraising

Planned
• This vocabulary was taught to boards and countless fundraisers over the last twenty-five years.

Major

Annual
We will consider major and planned gifts, what they are, and who is a prospect for them.

We will consider how planned gifts relate to endowments.

We will see how one institution (Harvard) has fared with planned gifts.

We will consider how advisors can be cultivated and engaged as partners in the work.

The traditional way of looking at fundraising is under stress. As we will see (beginning in assignment 8) the future of gift planning is rapidly evolving and straining against these traditional ways of structuring the work.

For now, let’s learn major and planned giving as it has been taught—so you can climb that ladder and ultimately kick it away!

Kathryn Miree, “Endowments in Crisis,” 2010

Kathryn Miree, “Identifying Professional Relationships that Make a Difference”

John Jensen, “Planned Giving Program Audit: Is Your Program up to Snuff?”
OPTIONAL MATERIAL

- Available on Blackboard

LEARNING OBJECTIVES

- Be able to discuss the role of endowments in planned gifts
- Be able to say what is meant by institutional readiness, feasibility study, and planned giving audit
- Be able to discuss the role of advisors in major and planned gifts.

KEY TERMS AND QUESTIONS

- “Sustaining gift,” “special gift,” “ultimate gift” – How does this language map to annual, major and planned, and why does it appeal more to donors?
- “Unrestricted gift” vs. “restricted gift” – What is the difference?
**Key Terms and Questions**

- “True endowment,” “quasi-endowment,” “term endowment,” “pooled endowment” – What are the differences between these?
  How do these relate to restricted gifts?
- “The spend” or “spending rate” – How does it relate to endowments and restricted gifts?

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**Key Terms and Questions**

- “Feasibility,” and “institutional readiness” – What indicates an organization is ready for planned gifts? What sorts of organizations have succeeded in planned gifts?
- “Planned giving audit” – What should be considered in assessing a current planned giving program?

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**Key Terms and Questions**

- “Principal gifts,” “non-cash gifts” – What do these terms mean?
  How big of a market do they represent?
  How well are charities doing in garnering such gifts?
AGENDA

- Annual, major, and planned gifts defined
- Prospects for planned gifts
- The role of endowments
- Planned giving: feasibility, readiness and audit
- Engaging advisors
- Planning for action
- Self-Test

TIME REQUIRED

- Readings, 2 hours
- Slides, 1 hour
- Planning for action, 30 minutes
- Self-test, 30 minutes
- Total: 4 hours

ANNUAL, MAJOR, AND PLANNED GIFTS

DEFINED AND CHARACTERIZED
### ANNUAL
- The check in the envelope
- Most often solicited via email, web, or events
- Can be called “checkbook philanthropy”
- But these gifts are treasured by the charity; they go into the annual budget & “keep the lights on.”
- Building a database of loyal, annual givers is the foundation for more personalized philanthropy that will follow.

### MAJOR GIFT DEFINITION
- Most often in cash
- Often defined as ten times the annual gift
- Can be major to the charity (defined as a dollar amount, which can be as low as $500)
- Or, can be major to the donor – a “stop and think gift”
- Generally solicited with a face to face “ask”

### PLANNED GIVING
- Certain tools in GS 849 are seen and supported by a nonprofit: CRT, CLT, gift annuity, pooled income fund, bequest, gift of insurance, life estate, bargain sale
- Also gifts of noncash assets
**PLANNED GIFTS DEFINED**

- Outright gifts—particularly of noncash assets: tangible personal property, collections, securities, closely held business interests, land
- Bequests and beneficiary designations
- Life income gifts such as pooled income funds, charitable remainder trusts, charitable lead trusts, gift annuities
- Endowed funds and restricted gifts

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**GIFTS OF NON-CASH ASSETS**

- “More than half of affluent investors’ assets are noncash assets, cash only represents 3-5%.”
- “Of the $300 billion in donations last year, noncash assets are estimated to be 3% or less.”

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**INSIGHTS FROM WILLIAM STURTEVANT**

*On Annual, Major, and Planned Gifts*
**William Sturtevant**

Second edition, 2004,  
First edition, 1993

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**Sturtevant’s Website**

Web Object

Address:
http://www.instituteorgiving.org/

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**Use Donor – Centered Language**

- “Your regular or sustaining gift…..” (annual)
- “Your special gifts…..” (major gift)
- “Your ultimate gift…..” (planned gift)

THE MAJOR GIFT

- The major or special gift may be 10 times the annual gift.
- It is given by "the loyal" who have made many annual or sustaining gifts.

Ultimate Gift $1,000,000

Major Gift $10,000

Annual Gift $1,000

THE ULTIMATE GIFT

- More time to cultivate.
- Requires more advisor input.
- More rational.
- More emotional.
- Consequences of bad decisions go up.

Ultimate Gift or Principal Gift $1,000,000

Major Gift $10,000

Annual Gift $1,000

DONOR ACQUISITION

FOR MAJOR AND PLANNED GIFTS
DONOR CULTIVATION FOR DECADES

The seeds of the ultimate gift may have been planted decades ago by fundraisers who are now long gone. A successful planned giving program requires a long term institutional commitment spanning generations of fundraisers.

DONOR FUNNEL OVER TIME

First year annual
Second year
Third year
Fourth year
Fifth year
Special
Ultimate

Per Penelope Burk, Donor Focused Leadership, 2013

90% attrition

PROSPECTS FOR MAJOR AND PLANNED

- “The loyals” who have given for years.
- Generally, major and planned gift officers are not out prospecting for business.
- They are working with a portfolio of 25-200 loyal donors assigned to them for cultivation and solicitation.
MASS MARKETING

- Ongoing mass-marketing to the loyals via newsletters, events, mailings, and websites may elicit interest in planned gifts and lead to follow up, long distance.
- Not all planned gifts are large enough to merit a face to face visit.

PROSPECTS FOR PLANNED GIFTS

LEGACY GIFTS OR GIFTS MATURING AT DEATH

ROBERT SHARPE, JR.

- Robert Sharpe, Jr. is president of The Sharpe Group. He has over 25 years of nonprofit fund development and consulting experience.
- Slides drawn from “How to Cripple your Career in Five Easy Steps.” 2010 PPP National Conference
**Know Your Demographics**

Higher Age
- Bequests
- Gift annuities

High Income and assets
- Noncash gifts
- CRTs
- Real estate with retained life estate
- Bargain sales

High Wealth/Age
- Gifts of securities
- Beneficiaries of life insurance
- IRA
- Qualified plans

**Age of Bequest Donor**

<table>
<thead>
<tr>
<th>Age</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>90–99</td>
<td>2%</td>
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<tr>
<td>80–89</td>
<td>17%</td>
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<tr>
<td>70–79</td>
<td>23%</td>
</tr>
<tr>
<td>60–69</td>
<td>26%</td>
</tr>
<tr>
<td>50–59</td>
<td>9%</td>
</tr>
<tr>
<td>40–49</td>
<td>9%</td>
</tr>
</tbody>
</table>

- Table shows age at date of gift
- Of the matured bequests in the study, the average age was 92

From Chronicle of Philanthropy, 2/7/2010

**Bequests**

- Can be 70–90% of all planned gifts
- Majority come from wills executed after age 75
- Older donors are increasingly shifting their legacies from one charity to another
MAJOR GIFTS OTHER THAN CASH

<table>
<thead>
<tr>
<th>Age</th>
<th>Under 45</th>
<th>45-55</th>
<th>55-65</th>
<th>65+</th>
</tr>
</thead>
<tbody>
<tr>
<td># of returns</td>
<td>23,139</td>
<td>41,540</td>
<td>43,411</td>
<td>93,522</td>
</tr>
<tr>
<td># of gifts</td>
<td>7,610</td>
<td>35,584</td>
<td>89,701</td>
<td>230,804</td>
</tr>
<tr>
<td>Value</td>
<td>$1.6 billion</td>
<td>$3.6 billion</td>
<td>$5.5 billion</td>
<td>$15.7 billion</td>
</tr>
</tbody>
</table>

IRS data from older donors
Note: Such gifts often require planning and advisor engagement.

INSTITUTIONAL READINESS AND FEASIBILITY

FOR PLANNED GIFTS

INSTITUTIONAL READINESS

For endowment per Kathryn Miree, JD

- Nonprofit has been around 8–10 years or more
- Has donors capable of making such gifts
- Has solid, current fundraising programs
- Has staff capable of soliciting, managing, stewarding
- Has a board committed to this
- Can afford to raise money for future uses, as opposed to “now money”
**INFRASTRUCTURE**

- Systems to manage endowments
- Systems to see that promises to donors about restrictions are kept ("stewardship")
- Systems to "count gifts" toward campaign totals (How much does a life policy count? Premium? Face amount?)
- Metrics to manage activity and predict future cash flows

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**GETTING STARTED IN PG**

- Institutional readiness audit (feasibility)
- Internal case for board approval
- External case to funders
- Marketing plan and materials
- Staffing
- Endowment in place
- Policies and procedures
- Advisory board of professionals
- Donor research capacity

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**MARKETING (EXTERNAL)**

Planned Giving: Summary of the “Moving Parts”
**ROLE OF ENDOWMENTS**

**Kathryn Miree, “Endowments in Crisis,” 2010**

**ENDOWMENTS & PLANNED GIFTS**

- Traditionally, endowments are built with planned gifts.
- Planned gifts as bequests and legacies come at unpredictable times and so are not planned into annual budget.
- Donors often stipulate that a planned gift go to endowment.
- Leaving a legacy fits with leaving something permanent.
**RESTRICTED GIFTS**

- Planned gifts are often “restricted” by the donor for a specific purpose.
- Made at or in contemplation of death as the donor’s most significant gift, the donor often wants the gift to live on forever (with the fund retained and only the gains spent).

**DEFINITIONS**

- **Endowment**: money set aside for long-term uses
- **True Endowments**: permanently set aside
- **Quasi-Endowments**: restricted by board resolution that can be changed, so may not prove to be permanent
- **Term Endowment**: set aside for a specific period
- **Pooled Endowment**: many people chip into a specific fund for a specific long-term purpose.

**“ENDOWMENT”**

**Viewpoints**

- Donor: Spend only income, not principal
- Accountant: “A permanently restricted fund”
- Lawyer: “An institutional fund not wholly expendable on current purposes under terms of the gift agreement”

Eric Dryburgh, J.D.

"DONOR RESTRICTIONS: What Will They Think of Next?"
Partnership for Philanthropic Planning
October 5, 2011
### Setting Up Endowment

- **Segregated Accounts**: held by charity itself
- **Designated Fund**: held by a community foundation
- **Supporting Foundation**: held by a foundation controlled by the charity
- **Restricted**: wherever held, it may not be spent except as specified by donor
- **Unrestricted**: to be used for future purposes, but purpose not restricted by donor

### Role of Endowment

- Ensure services not reduced in economic downturn
- Expand charity’s reach and capacity
- Support new programs
- Pool of money for educating board and staff
- Add depth to existing programs

### Endowments in Crisis

- Congressional scrutiny
- Conflicts of interest and abuses
- Taxation of endowments
- Market crash and “blame game”
- Litigious donors
9 BEST PRACTICES FOR ENDOWMENT

1. Clear case (internal) for board and staff and external for funders
2. Pie chart showing how funds will flow to programs and populations served
3. Standards for restricted funds, recognition levels, and naming opportunities
4. Clear gift agreement process
5. Ongoing review of investment policy

BEST PRACTICES

6. Adopt spending policy for endowments
7. Set and execute stewardship standards for thanking, recognizing, reporting to donors
8. Keep impact visible through board reports, donor communications, and website
9. Maintain constant communication with donors when tensions arise so donor’s intent is fulfilled under changing circumstances

PLANNED GIVING AUDIT

DRAWN FROM JOHN JENSEN, "GETTING AN OUTSIDE LOOK: THE GIFT PLANNING PROGRAM AUDIT," THE JOURNAL OF GIFT PLANNING, Q4, 2010
### Planned Giving Assessment

- **Feasibility study:** If the organization does not have planned giving, is it feasible to do so?
- **Institutional readiness study:** If the nonprofit does not have planned giving, and it is feasible, is now the right time?
- **Audit:** If the program is now up and running, how well is it working?

### Audit

- Identify strengths and weaknesses of existing gift-planning programs
- Determine reasonable revenue potential and appropriate level of investment needed
- Compare with other organizations
- Look at results and evaluate processes
- Identify appropriate improvement steps

### Who Should Conduct?

- An outsider; insiders too close to the situation
- Should have experience and references
- Kathryn Miree is an example of a potential auditor
- John Jensen works for The Sharpe Group with 40 years of experience in gift planning and consulting
- Advisors: Do not volunteer to do this work! It is specialized and requires a paid consultant
## Audit Focus Areas

<table>
<thead>
<tr>
<th>Donor base</th>
<th>Age</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Men versus women</td>
</tr>
<tr>
<td></td>
<td>Level of wealth</td>
</tr>
<tr>
<td></td>
<td>Marital status</td>
</tr>
<tr>
<td></td>
<td>Giving history and trends</td>
</tr>
<tr>
<td></td>
<td>Legacy Society members and trends</td>
</tr>
<tr>
<td>Internal programs</td>
<td>Management attitudes</td>
</tr>
<tr>
<td></td>
<td>How the institution handles estates — how active is the institution in monitoring the process of estate settlement?</td>
</tr>
</tbody>
</table>

## Audit Considers

- Staffing levels
- How staff time is used
- Staff continuity and retention
- Metrics — how activity and results are measured
- Marketing — how it fits with the audience
- Gift acceptance policies — in place?

## Audit Considers

- Statistics on CGAs, CRTs, CLTs versus simple bequests and beneficiary designations — where is the money actually coming from?
- Projecting planned giving potential
- Benchmarking against other nonprofits
- Donor pipeline and how it is managed and tracked
- Assessing appropriate investment now in planned giving to get future results
### When to Have an Audit?

1. New program feasibility study
   - Audit 5 years out with new program
   - Bring auditor back in every year or two?
2. Changeover in management
3. Capital campaign in the offing

### Cost

- Depends on time
- Can be 2–3 days for “quick and dirty”
- Can be weeks spread over months

### Engaging Advisors
# ROLE OF ADVISORS

*MIREE, "PROFESSIONAL RELATIONSHIPS THAT MAKE A DIFFERENCE"

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## MIREE ON PARTNERING

- Planned giving is a team effort at its best.
- As in business, the right partners make all the difference.
- The goal is not to remain aloof and suspicious of every possible partner, nor to partner naively with just anyone.
- The goal is to partner with the right people after an appropriate process of evaluation.

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## PROFESSIONAL RELATIONSHIPS

- Attorney
- CPA
- Insurance professional
- Financial planner
- Trust officer
- Stockbroker
- Real estate agent or broker
**Barriers**

- Stereotypes about each other — “the dark side” versus the “air heads.”
- Saving the donor/client from the other side
- Keeping the other in the dark
  - Charity fears advisor will kill the deal
  - Advisor plans for “the charity of your choice”

**Points of Conflict**

- Advisory firms now offer “full service” including philanthropic consulting and charitable tools, including DAFS, foundations, CLTs, CRTs, insurance
- Advisors compete with each other and with the charity for client control and “share of wallet”

**Benefits of Team Play**

- A consistent point of view emerges so that the plan can be more effective and efficient
- Fewer strategies working at cross purposes
- A more holistic set of solutions
Most planned giving programs have an advisory board of professionals. Some are large and are mostly to get the word out and build relationships. Others are small working boards. Advisory boards are distinct from the governing board of the charity. Advisory boards are generally unpaid. Members hope to get referrals.

May review gift acceptance policies Create seminars Contribute to newsletters Identify potential seminar attendees Review marketing literature Discuss philanthropy with clients Should not solicit own clients for the charity; that is not the role of a client advisor: duty is to the client

“In every town there are a handful of advisors who understand philanthropy and have heart for this work, and those are the only ones worth cultivating.”

Bryan Clontz, CFP, CAP, AEP 2013-2014 Leon L. Levy Fellow in Philanthropy at The American College, during 2014 presentation to community foundation staff about forming CAP® study groups.
### CAP® Study Groups

- One meaningful way to convene, educate, motivate, cultivate, and engage the best advisors is through a CAP® study group.

### Planning for Action

### Action Questions

- Consider a nonprofit you love, lead, support, or for which you raise money.
- Do they support major and planned gifts?
- Do they accept gifts other than cash?
- Do they have an endowment?
- Do they support restricted gifts?
ACTION QUESTIONS

 Does the organization make best use of donor advisors in engaging high capacity donors?

ACTION QUESTIONS

 Do you see any signs that the traditional approach to annual, major and planned gift divisions is under stress?

SELF-TEST
ONWARD!

4. • Fundraising responsibilities of nonprofit boards

5. • Major gifts and planned gifts

6. • From stewardship to accountability